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SEC BRIEFING

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CHINESE ECONOMIC ACTIVITY IN SOUTHEAST ASIA

- I. Peiping began an economic drive in 1954 in Southeast Asia. Effects first really felt last year, but now, because of current pre-occupation with the "leap forward," moving ahead on its earlier momentum. Presents long-range threat of major implications for position of West in Southeast Asia.
 - A. Chinese activity is dual-activated: to make its growing power felt in Southeast Asia through economic relations, and to generate sterling, enabling China to finance West European goods essential to its own developmental program.
- II. China has a capability for a major trade assault which could disrupt several Southeast Asian economies.
 - A. Rice sales to Southeast Asia, now totaling less than .009 percent of Chinese production easily could be expanded with drastic effect on the economies of Burma and Thailand.
 - B. Chinese rubber purchases, nearly 10 percent of Southeast Asian production are shifted from one producer to another, creating uncertainties in the market. China's first major purchases from Malaya made in 1958 probably will not be repeated this year, but diverted to Indonesia.
- III. The impact of the Chinese drive has been mixed and program encountered some set-backs.
 - A. In those countries where Chinese goods compete with local production, domestic commercial influences have become vociferously anti-Chinese.
 1. Malaya and Singapore reacted to Chinese aggressive tactics

by quotas, embargoes and proposed legislation on dumping. Malaya will close by mid-April the Bank of China branches which engaged in unorthodox transactions such as tariff rebates, thus influencing importers to buy Chinese goods.

2. To counter the Malayan action Peiping retaliated with a trade ban which hurt China more than Malaya and was, in effect, subsequently rescinded.

3. Despite the obstructions to trade, China's exchanges with Singapore and Malaya increased by 25% in 1959 to 190 million dollars (US).

4. In other countries where there is little domestic industry (Burma, Indonesia, Cambodia), Chinese price-cutting and favorable credit terms have reduced import costs and hence increased the availability of a wide range of consumer goods and light industrial items.

1. In Indonesia, China began a drive to expand trade by 10 year loans for consumer goods (an unusual Communist tactic) and by military credits.

a. To meet Indonesia's needs for slow ground attack aircraft, China, in its first arms deal in the free world, has been supplying relatively obsolescent aircraft this year.

c. But in this case the trade drive has affected competing exporters in Hong Kong, Japan and India.

2. But actually, Chinese sales during the trade drive (starting 1958) account for only 15 percent of total increased Southeast Asian imports in that period.

3. And only certain products have been affected by this drive, for example: textiles (India, Japan, Hong Kong) and cement (Hong Kong, Japan).
- IV. It is unlikely, however, that China, at this time, will risk its past gains by an effort which would provoke adverse reaction to the whole program and confirm warnings of the potential threat.